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Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CALIFORNIA 95814

November 18, 1982

Letter Report 236

Honorable Walter M. Ingalls
Chairman, and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to Chapter 998, Statutes of 1981 (Assembly Bill 114) and a request by the Joint Legislative Audit Committee, we are providing specific information about the State School Building Lease-Purchase Program (program). This letter provides information on the funding of deferred maintenance and new school construction projects, the State Allocation Board's project application and approval process, the use of developer fees, alternatives to constructing new school facilities, and the program's conformity with statutory requirements. We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the Government Code. Further, we conducted this review in accordance with generally accepted governmental auditing standards, except that our work was limited to that requested by the Legislature.

BACKGROUND

Section 17700 et seq. of the Education Code provides for reconstructing, remodeling, or replacing existing school buildings that are inadequate for instruction or that do not meet present structural safety requirements. The law also provides for procuring new school sites and constructing buildings. The State Allocation Board (board) is composed of the Director of Finance, the Director of General Services, the Superintendent of Public Instruction, and two members each from

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the Senate and the Assembly. The board considers applications for lease-purchase projects, apportions school building funds, and establishes regulations, policies, and procedures for administering the program. The Office of Local Assistance, within the Department of General Services, provides staff assistance and support services to the board. This is the second Auditor General report on the State School Building Lease-Purchase Program.*

SCOPE AND METHODOLOGY

This report answers specific questions regarding the State School Building Lease-Purchase Program. To provide the information requested by the Legislature, we researched laws and regulations pertaining to the program. We also interviewed key officials in the Office of Local Assistance, the State Department of Education, and the State Controller's office. Finally, we visited a school construction project and verified the accuracy of its project application.

AUDIT RESULTS

In this section we discuss the five areas we were specifically asked to address. The first area concerns the funding of the deferred maintenance and new school construction projects. The second area focuses on the State Allocation Board's project application and approval process. The third addresses the use of developer fees as a resource for acquiring school sites and for building schools. The fourth discusses alternatives to constructing new school facilities. Finally, the fifth area concerns whether the program is administered in accordance with statutory requirements.

Deferred Maintenance and New Construction

In accordance with Section 17780 of the Education Code, the State Allocation Board determines the amount of funds to be made available to the State School Building Lease-Purchase Fund and to the State School Deferred Maintenance Fund.

* The Auditor General's previous report, P-226, was issued on April 30, 1982.

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Sections 39619 and 39619.5 of the Education Code limit the amount of state funds that can be apportioned to a school district for the purpose of deferred maintenance projects. According to officials from the Office of Local Assistance, within the Department of General Services, the State Allocation Board provides sufficient funding to meet the statewide funding requirements of the deferred maintenance program before authorizing funds to the State School Building Lease-Purchase Program.

Project Application and Approval Processes

The major difference between the State Allocation Board's project application and approval process and the Public Works Board's process is that the State Allocation Board is authorized to fund school construction projects, whereas Public Works Board projects are funded by the Legislature through the state budget process. Section 17700 et seq. of the Education Code specifically describes the State Allocation Board's authority and operating guidelines for school construction funding. On the other hand, the Public Works Board operates according to Sections 15752 et seq. and 15800 et seq. of the Government Code. The Public Works Board's process is more lengthy because projects are funded through the state budget process, and successive phases of projects are usually approved over a period of several fiscal years.

Use of Developer Fees

Because not all school districts meet the conditions that allow for the imposition of a developer fee, only some districts are currently receiving a developer fee. Developer fees may be imposed by local governing bodies on real estate developers as a condition of approval for residential development. Developers may be required either to pay the developer fee or to dedicate land to the school district. These fees are to be used only for providing temporary facilities in a school district. Section 65970 et seq. of the Government Code specifically defines the conditions that must exist before a city or county may impose developer fees to provide school facilities.

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Officials from the Office of Local Assistance stated that approximately 130 of the nearly 1,050 school districts in California impose some type of developer fee. Of these districts, 46 have applications filed for a construction project under the State School Building Lease-Purchase Program.

Alternatives to Constructing New School Facilities

The State School Building Lease-Purchase Program offers some incentives for school districts to consider alternatives other than new construction in their construction projects. For example, whenever a building is to be reconstructed rather than replaced or whenever relocatable structures are utilized, a school district is granted a larger allowance for square feet of space. Additionally, the process is designed to identify any unused school sites available in a district and to require that district to maximize the use of existing facilities. Section 17724.5 of the Education Code requires the State Department of Education to assist school districts in evaluating existing school facilities and in justifying the need for school sites. However, the law does not require that a complete school-site inventory be maintained to verify adequately the accuracy of the districts' property disclosures. During our survey of this phase of the approval process, we identified the county assessors' offices as a source for developing an accurate and complete inventory of school properties.

Conformity with Statutory Requirements

Our survey indicated that the State Allocation Board's actions and the Office of Local Assistance's procedures are consistent with the authority and guidelines specified by Section 17700 et seq. of the Education Code. Section 17700 et seq. of the Education Code provides specific requirements to the State Allocation Board for administering the State School Building Lease-Purchase Program and also gives the board the authority to deviate from the specific guidelines when it deems appropriate.

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In the event that you may need further clarification on these issues, my staff will be available to meet with you.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Staff: Robert E. Christophel, Audit Manager
Karen Nelson
Sandra Lee

Attachments: Responses to the Auditor General's Report
Department of Education
Department of General Services
State Allocation Board



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

October 26, 1982

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

The following statement is in response to your letter report #236 regarding the State School Building Lease-Purchase Program.

The Department of Education has only one suggestion and that relates to the statement on page 4 about the county assessors' offices as a source of data for an inventory of school property. The Department is in support of that procedure if it emerges as a recommendation. Your statement implies that either the Office of Local Assistance or this Department should have an inventory of such data at this time; however, I think your letter should clearly state that neither office has the statutory responsibility to currently process, compile or report on such an inventory.*

The Department has no other comment about the letter and we accept the report as an informational statement.

Sincerely,

A handwritten signature in dark ink, appearing to read "William D. Whiteneck", written over a horizontal line.

William D. Whiteneck
Deputy Superintendent for Administration
(916) 445-8950

WDW:ds

* Our letter report was amended to reflect the State Department of Education's concerns.

DEPARTMENT OF GENERAL SERVICES



October 27, 1982

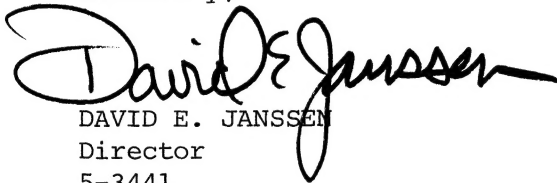
Mr. Thomas W. Hayes
Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

This is in response to your letter dated October 25, 1982,
transmitting a draft copy of your letter report concerning the
State School Building Lease-Purchase Program.

I have reviewed this draft and am in agreement with your
opinions as stated.

Sincerely,


DAVID E. JANSSEN
Director
5-3441

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STATE ALLOCATION BOARD1025 P STREET, ROOM 112
SACRAMENTO, CALIFORNIA 95814

October 29, 1982

Mr. Thomas W. Hayes
Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814


Dear Mr. Hayes:

Please consider this a response to your draft report of October 25, 1982, with regard to the State School Building Lease-Purchase Program.

After reviewing your report, I have no real differences in your findings or conclusions. However, I should point out that your draft report states that legislative members of the State Allocation Board meet with and advise the Board to the extent that such advisory participation is not incompatible with their legislative positions. Section 1, Article 16 of the State Constitution provides that legislative members of the Board have equal rights and duties as non-legislative members to vote and act upon all matters pending or coming before the Board for allocation and apportionment of funds to school districts.*

The professional manner in which your staff conducted the review is appreciated.

Sincerely,


Mary Ann Graves
Chairman

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* Our letter report was amended to reflect the State Allocation Board's concerns.